# Section 4

# Explanation of Terms

The Explanation of Terms section is designed to clarify the statistical content of this report and should not be construed as an interpretation of the Internal Revenue Code, related regulations, procedures, or policies.

The definitions and explanation in this section relate to column or row titles used in one or more tables in this report. They provide background or limitations to such titles, and are necessary to interpret the statistical tables to which they relate. For each of these titles, the line number of the tax form on which it is reported appears after the title. Definitions marked with the symbol Δ have been revised for 1995 to reflect changes in the law.

Further information about many of the items in this report can be found in Section 5, 1995 Forms and Instructions.

## Additional Standard Deduction

(included in line 34, Form 1040)

See "Standard Deduction."

## Additional Taxes

(line 39, Form 1040)

Taxes calculated on Form 4970, *Tax on Accumulation Distribution of Trusts* and/or Form 4972, *Tax on Lump-Sum Distributions* were reported here.

## Adjusted Gross Income Less Deficit

(line 31, Form 1040)

Income that had to be reported for the calculation of total income (line 22, Form 1040) and of adjusted gross income included the following:

- Compensation for services, including wages, salaries, fees, commissions, tips, taxable fringe benefits, and similar items;
- Taxable interest received;
- Dividends and capital gain distributions;
- Taxable refunds of state and local income taxes;
- Alimony and separate maintenance payments;
- Net income derived from a business,

profession, or farm;

- Net gain from the sale of capital assets;
- Net gain from the sale of business property;
- Taxable amounts of annuities, pensions, and individual retirement arrangement (IRA) distributions;
- Rents and royalties;
- Distributive share of partnership or S corporation net income;
- Net income from an estate or trust;
- Unemployment compensation;
- Taxable amounts of social security and railroad retirement (Tier 1) payments;
- Prizes, awards, and gambling winnings;
- Amounts received that were claimed as a deduction or credit in a prior year; and
- Bartering income.

Some reported income was fully or partially excluded from total income for 1995. The following is a list of such items:

- The cost basis of pension, annuity, or IRA payments or distributions;
- Tax-exempt interest;
- Limited exclusion of social security benefits and railroad retirement benefits (only reported if there was also a taxable amount);
- Limited exclusion of qualified foreign earned income; and
- One-time exclusion of part or all of the gain from sale of principal residence by individuals who are 55 years of age or older.

From total income, the following statutory adjustments (lines 23 through 29, Form 1040) were subtracted to arrive at adjusted gross income (line 31, Form 1040):

- Contributions to self-employed retirement plans (Keogh or simplified employee pension) and certain contributions to IRAs;
- Moving expenses;
- One-half of self-employment tax;
- Self-employed health insurance deduction;
- Forfeited interest and penalties incurred by persons who made premature withdrawals of funds from time savings accounts;
- Alimony payments;
- Forestation or reforestation expenses;
- Foreign housing exclusion;

Repayments of supplemental unemployment compensation;

- Certain expenses of qualified performing artists; and
- Amount of jury duty pay reported on line 21, Form 1040, that was repaid to employers.

A deficit occurred if the allowable exclusions and deductions exceeded gross income, (i.e., the amount on line 30 was greater than the amount on line 22).

## Adjustments

See "Statutory Adjustments."

## Advance Earned Income Credit Payments

(line 52, Form 1040)

Taxpayers who believe they would be eligible for the earned income credit at the end of the year could receive part of the credit from their employers as an additional payment in their paychecks during the year. Those payments were then shown on the tax return where they either increased the balance due amount or reduced the amount of the overpayment.

### Alimony Paid

(line 29, Form 1040)

Payments made as alimony or separate maintenance counted as a deduction (an adjustment to total income) for the person paying them.

### Alimony Received

(line 11, Form 1040)

Payments received as alimony or separate maintenance were income to the person receiving them.

### All Other Taxes

(lines 47, 49, 50, 51, 53, 54, Form 1040)

For the statistics in this report, this amount represents the sum of the self-employment tax, tax from the recapture of the investment credit and the low income housing credit, social security and Medicare taxes on tip income, penalty tax on qualified retirement plans, household employment taxes, and other unspecified taxes which included uncollected FICA (or social security) tax on tips, excess golden parachute payments, and section 72 penalty taxes. This differs slightly from the "other taxes" portion of the Form 1040 itself, which included the taxes listed above plus the alternative minimum tax, and the advance earned income credit payments received. Alternative minimum tax is tabulated in this report as a part of "total income tax" and is one of the criteria for determining the taxable or nontaxable classification of the return. Household employment taxes and advance earned income credit payments are shown as separate items in computing total tax liability, balance due or refund. (See also "Taxable and Nontaxable Returns" and "Total Income Tax.")

### Alternative Minimum Tax

(line 48, Form 1040)

The alternative minimum tax (AMT) was levied on benefits received in the form of deductions and exclusions which reduced an individual's regular effective tax rate. These benefits, known as "alternative minimum tax preferences and adjustments," resulted from the treatment that the tax law gave to particular income and expense items.

Alternative minimum taxable income (line 21, Form 6251) was defined as taxable income adjusted for net operating losses from other tax years plus the amount of adjustments and preferences. Alternative minimum taxable income (AMTI) was then reduced by an exemption amount determined by filing status and AMTI. If the return was filed jointly by a married couple or a surviving spouse, the maximum amount of the exemption was $45,000. The maximum amount for a single or head of household taxpayer was $33,750, and for a married couple filing separately, $22,500. The AMT exclusion was phased out if AMTI exceeded certain levels. For single taxpayers, the phase-out began at $112,500 and ended at $247,500. For joint returns the range was $150,000 to $330,000, and for married couples filing separately, the range was $75,000 to $165,000.

If there was an amount remaining after subtracting the exemption, the first $175,000 ($87,500 or less if married filing separately) was taxed at a 26 percent rate; any excess was taxed at a 28 percent rate. This amount was then reduced by the recalculated alternative minimum tax, foreign tax credit, and regular income tax before credits (line 38, Form 1040 plus any tax from Form 4970 included on line 39; Form 1040 minus the regular foreign tax credit, line 43, Form 1040) to arrive at the alternative minimum tax.

## Basic Standard Deduction

(included in line 34, Form 1040)

See "Standard Deduction."

## Business or Profession Net Income or Loss

(line 12, Form 1040)

This source of income or loss was reported by individuals who were sole proprietors of a nonfarm business, including self-employed members of a profession.

If two or more sole proprietorships were operated by the same taxpayer, the single amount of net income or loss included in the adjusted gross income represented the combined net income and loss from all sole proprietorships. The proprietor was required to exclude investment income from business profits and include it, instead, with the various types of investment income for which separate provisions were made on the individual income tax return.

Total expenses (line 28, Schedule C) were deducted from gross income (line 7, Schedule C) to arrive at a tentative profit or loss. Expenses for business use of the taxpayer's home (line 30, Schedule C) were then deducted to arrive at net income or loss. Compensation of the proprietor was taxable income and, therefore, not allowed as a business deduction in computing net income. The deduction of net operating losses from previous years was not considered a business expense, but was offset against “Other Income” (line 21, Form 1040).

Information on sole proprietorships, business receipts, and expenditures can be found in the annual summer issue of the *Statistics of Income Bulletin*.

## Capital Assets

See “Sales of Capital Assets, Net Gain or Loss.”

## Capital Gain Distributions Reported on Form 1040

(line 13, Form 1040)

These distributions included long-term capital gain either credited or distributed to individual taxpayers by regulated investment companies, mutual funds, and real estate trusts. Taxpayers also reported capital gain distributions on Schedule D, *Capital Gains and Losses*, but they could enter the distributions directly on line 13 of Form 1040 if they had no other gain or loss to report on Schedule D.

## Capital Gains and Losses

See “Sales of Capital Assets, Net Gain or Loss.”

## Casualty or Theft Loss Deduction, Nonbusiness

(line 19, Schedule A)

Nonbusiness casualty and theft losses were deductible, as an itemized deduction, from adjusted gross income to the extent that nonreimbursable net loss for each such casualty or theft exceeded $100, and the combined amount for all net losses during the year exceeded 10 percent of adjusted gross income. (See also"Total Itemized Deductions.")

## Child Care Credit

(line 41, Form 1040)

This credit could be claimed by taxpayers who, while employed or looking for work, incurred expenses for the care of dependent children under age 13, or disabled dependents of any age. Qualified expenses included those for services performed within the home by non-dependent babysitters, maids, or cooks. Expenditures paid for the care of children under the age 13 or any other qualified individuals for out-of-home, non-institutional care qualified for the child care credit.

The maximum amount of care-related expenses on which the credit could be based with one qualifying child or dependent, was the smaller of earned income or $2,400; with more than one dependent the credit was based on the smaller of earned income or $4,800. For returns of married couples filing jointly, earned income refers to the earnings of the spouse with the lesser earned income. Exceptions were allowed if the spouse was disabled or a full-time student.

The credit was equal to 30 percent of eligible expenses for taxpayers with adjusted gross income of $10,000 or less. The credit was reduced by one percentage point for each partial or full $2,000 increment of adjusted gross income in excess of $10,000 up to $28,000. The credit remained at 20 percent of expenses for individuals with adjusted gross income over $28,000.

The amount of the credit which could be claimed was limited to income tax before credits, and any excess was not refundable.

## Contributions Deduction

(lines 15-18, Schedule A)

Taxpayers could deduct contributions to certain organizations that were religious, charitable, educational, scientific, or literary in purpose. Contributions could be in cash, property, or out-of-pocket expenses that a taxpayer paid to do volunteer work for a qualified organization. Contributions were allowed as an itemized deduction on Schedule A. Cash contributions were generally limited to one-half of the taxpayer's AGI. Contributions of capital gain property were generally limited to 30% of the taxpayers AGI. Therefore, the sum of the separate charitable contributions could be more than the total deduction (which had been limited). Contributions which could not be deducted due to the AGI limitation could be carried over to future years (and brought over from previous years). For all charitable contributions of $250 or more, a written acknowledgment from the qualified recipient organization was required.

## Credit for Federal Tax on Gasoline and Special Fuels

(line 60b, Form 1040)

This credit (claimed on Form 4136) was allowed for federal excise taxes paid on gasoline and special fuels, such as gasohol and diesel fuel, provided the fuel was used for certain purposes (such as farm or non-highway use in a trade or business), bought at a price that included the tax, and a refund of the tax was not requested or received. The credit could reduce unpaid total tax liability or could be refunded. A one-time refundable credit was allowed to the original purchaser of a new, qualified diesel-powered highway vehicle. The credit was $102 for a car, and $198 for a light truck or van.

### Credit for the Elderly or Disabled

(line 42, Form 1040)

A credit (claimed on Schedule R) for the elderly or permanently and totally disabled was available to taxpayers age 65 or older (within certain income limitations), and to those taxpayers under age 65 who had retired with a permanent and total disability and who had received taxable income from a public or private employer because of that disability. The income to which the credit could be applied was reduced by nontaxable amounts of social security and railroad retirement benefits, veterans' pensions, and any other pension, annuity, or disability benefits that were excluded from income under any other provisions of the law.

An individual was considered permanently and totally disabled when he or she could not engage in any substantial gainful activity because of a physical or mental condition which had lasted, or was expected to last, at least twelve months, or was determined to be terminal.

The maximum credit available ($1,125), was limited to total income tax with any excess not refundable, and was reduced if the taxpayer's income exceeded certain levels. Generally, if a taxpayer's income was high enough to require the reporting of social security benefits as taxable income, the taxpayer could not take the credit.

### Credit from Regulated Investment Companies

(line 60a, Form 1040)

Taxpayers were required to include in total income any amounts which were allocated to them as undistributed long-term capital gains of regulated investment companies. If investment companies paid tax on the capital gain, taxpayers were entitled to claim a refundable credit (claimed on Form 2439) for their proportionate share of the tax paid.

### Credit to 1996 Estimated Tax

(line 64, Form 1040)

This amount was the part of the overpayment of 1995 tax which taxpayers specifically requested to be credited to their estimated tax for 1996. (See also "Overpayment" and "Estimated Tax Payments.")

### Deduction of Self-Employment Tax

(line 25, From 1040)

If a taxpayer had income from self-employment and owed self-employment tax, one-half of that tax was deductible for income tax purposes. The amount was subtracted as an adjustment from total income in the calculation of AGI.

### Dividends

(line 9, Form 1040)

Dividend income consisted of distributions of money, stock, or other property received by taxpayers from domestic and foreign corporations, either directly or passed through estates, trusts, or partnerships. Dividends also included distributions from money market mutual funds.

Dividends did not include nontaxable distributions of stock or stock rights, returns of capital, capital gains, or liquidation distributions. Taxpayers were also instructed to exclude amounts paid on deposits or withdrawable accounts in banks, mutual savings banks, cooperative banks, savings and loan associations, and credit unions, which were to be treated as interest income.

### Earned Income Credit D

(line 57, Form 1040)

The earned income credit for 1995 consisted of the basic credit with a maximum of $2,094 for one qualifying child, $3,110 for two or more qualifying children, and $314 for taxpayers with no qualifying children. To be eligible for the credit with children, the taxpayers must have had a qualifying child living with them for more than half the year. The taxpayers' earned income and adjusted gross income had to be each less than $24,396 ($26,673 if more than one qualifying child). To be eligible for the credit without children, the taxpayer must have earned income and adjusted gross income less than $9,230 and they (or their spouse) must be at least 25 years of age and less than 65 years old to claim the credit. The credit was generally based on earned income, consisting of wages, salaries, and other employee compensation, plus net earnings from self-employment. Taxpayers could not take the credit if their filing status was married filing separately, or they claimed the foreign income exclusion.

For this report, the earned income credit is divided into three parts: the amount used to offset income tax before credits (limited to the amount needed to reduce income tax after credits to zero); the amount used to offset all other taxes (limited to the amount needed to reduce total tax liability to zero); and the refundable portion. (See also “Advance Earned Income Credit Payments.”)

### Earned Income Credit, Refundable Portion

See "Earned Income Credit."

### Earned Income Credit Used to Offset Income Tax Before Credits

See "Earned Income Credit."

### Earned Income Credit Used to Offset Other Taxes

See "Earned Income Credit."

### Employee Business Expense

See “Unreimbursed Employee Business Expenses.”

### Estate or Trust Net Income or Loss

(line 36, Schedule E, Part III)

This was the beneficiary’s share of fiduciary income (with the exception of the items described below, which were reported separately) from any estate or trust. Income from estates or trusts included amounts required to be distributed, amounts credited to beneficiaries’ accounts from current-year fiduciary income (whether or not actually distributed), and any other amounts which were properly paid, credited, or required to be distributed for that year.

Taxpayers excluded their share of dividends and gains or losses from sales of capital assets or other property, from estate or trust income. Such income (which made up the largest portion of income from estates or trusts) was included on the tax return on the separate lines provided for these income types and was not separately identified for the statistics. A loss from an estate or trust was allocated to the beneficiary only upon settlement or termination of an estate or trust and was limited by the “passive loss” rules.

For the tables, if a return showed net income from one estate or trust, and a net loss from another, that return was tabulated in both the “total income” and “total loss” columns. The columns labeled “net income” and “net loss” represent the sum of all income and losses reported from all estates or trusts, i.e., the net amount computed on a return-by-return basis.

## Estimated Tax Payments

(line 56, Form 1040)

This figure represents the total of the tax payments made for 1995 using Form 1040-ES, and any overpayment from the taxpayer’s 1994 return that was applied to the 1995 estimated tax. Generally, individuals were required to make estimated tax payments if they expected to owe, after subtracting withholding and credits, at least $500 in tax for 1995, and they expected withholding and credits to be less than the smaller of: (a) 90% of the tax shown on Form 1040 for 1995, or (b) 100% of the tax shown on Form 1040 for 1994.

## Excess Social Security Taxes Withheld D

(line 59, Form 1040)

If a taxpayer earned more than $61,200 for 1995 ($60,600 for 1994) in total wages from two or more employers in 1995, too much social security (FICA) or Railroad Retirement Tax Act (RRTA) tax may have been withheld from his or her wages. (For 1995, there was no wage base limitation for Medicare tax, therefore all covered wages were subject to Medicare tax). Filers claimed credit for such overpayment on their tax returns. The excess social security, or RRTA, taxes withheld could be taken as a credit toward payment of the taxpayer’s income tax, or refunded. In the case of a joint return, the credit was computed separately for each taxpayer.

## Exemptions D

(lines 6, 36, Form 1040)

In the computation of taxable income, a $2,500 deduction ($2,450 for 1994) was allowed for each exemption claimed if adjusted gross income was less than a certain amount, based on filing status. In general, an exemption was allowed for each taxpayer and dependent shown on a return. If an individual who could be claimed as a dependent by another taxpayer filed a return, that individual could not claim his or her own exemption.

With few exceptions, an individual had to meet five requirements to qualify as a dependent for 1995:

1) The individual received more than half of his or her support for 1995 from the taxpayer;

2) The individual was related to the

taxpayer (such as a son, daughter, or parent) or was a member of the same household for the entire year;

3) The individual did not file a joint return with his or her spouse;

4) The individual met certain citizenship requirements;

5) The individual's gross income was less than $2,500. An exception to the income limitation was granted to children under age 19, or full-time students under age 24.

These statistics classify the exemptions as children at home, children away from home, parents, and other.

If a taxpayer had AGI above certain levels, his or her personal exemption deduction may have been reduced or eliminated. For single taxpayers, the phaseout began at $114,700 and was completed at $237,200; for married persons filing jointly and surviving spouses, the phaseout began at $172,050 and was completed at $294,550; for heads of household, the phaseout began at $143,350 and was completed at $265,850; and for married persons filing separately, the phaseout began at $86,025 and was completed at $147,275.

## Farm Net Income or Loss

(line 18, Form 1040)

This source of income or loss was reported by individuals who were sole proprietors of farms. When there were two or more farms operated by the same taxpayer, the single amount of profit or loss included in the adjusted gross income represented the combined profit and loss from all farming activities. Farm business total expenses (line 35, Schedule F) were deducted from farm gross income (line 11, Schedule F) to arrive at farm net profit or loss.

Gains from certain sales of livestock and crops that qualified for capital gains treatment were excluded from farm net profit or loss and were included in capital gains. Farm rental income was included in total rent net income or loss. (See also "Farm Rental Net Income or Loss.")

## Farm Rental Net Income or Loss

(line 39, Schedule E)

Taxpayers were required to report farm rental income and expenses separately from other farm profit or loss if they: a) received income that was based on crops or livestock produced by the tenant, and b) did not manage or operate the farm to any great extent.

## Filing Status

See "Marital Filing Status."

## Foreign Earned Income Exclusion

(included in line 21, Form 1040)

Qualified taxpayers could exclude from total income a certain amount of their foreign earned income and employer-provided foreign housing expenses if their home, for tax purposes, was in a foreign country.

Qualifying individuals were limited to the lesser of a $70,000 exclusion or their total foreign earned income. Also, they could elect to exclude a portion of employer-provided foreign housing expenses. If the taxpayer elected to take both the foreign earned income and foreign housing exclusions, the total amount of both exclusions was limited to the taxpayer's total foreign earned income. The foreign earned income exclusion was entered as a negative amount on this line by the taxpayer but edited into a separate field during service center processing. The employer-provided foreign housing exclusion was left as part of other income.

## Foreign Housing Deduction

(included in the total on line 30, Form 1040)

Qualified taxpayers who had foreign housing expenses that were not provided by their employer were eligible to deduct these expenses from total income. This deduction together with the foreign earned income exclusion was limited to the total amount of foreign earned income for 1995.

## Foreign Tax Credit

(line 43, Form 1040)

Individuals who paid income or excess profit taxes to a foreign country or U.S. possession could claim either this credit against Federal income tax liability, or take an itemized deduction for the amount of the foreign tax payment. Depending on the taxpayer's income and taxes, the foreign tax credit could be less than the amount of foreign tax paid. Qualifying foreign taxes paid in excess of the allowable amount for Tax Year 1994 could be carried back 2 years and then forward 5 years.

## Forfeited Interest Penalty Adjustment

(line 28, Form 1040)

Taxpayers who paid penalties for the premature withdrawal of funds from time savings accounts or deposits could deduct those penalties as an adjustment to total income.

## Forms 1040, 1040A, 1040EZ, and 1040PC D

The individual income tax system utilizes three major forms to collect income and tax information: the 1040, 1040A, and 1040EZ. Variations of the three basic forms included 1040PC, 1040TEL, and electronic filing. Also, for 1995, Form 1040T, a simplified version of Form 1040, was used on an experimental basis in select areas. After 1995, Form 1040T was discontinued. Form 1040PC returns were generated by IRS-approved software on a personal computer, and were typically condensed versions of the standard paper forms. A 1040PC does not differentiate by 1040, 1040A, or 1040EZ.

Returns of all of these types were included in the population of returns subjected to sampling, and were classified by the guidelines for filing a standard form (i.e., Forms 1040, 1040A and 1040EZ), discussed below. For example, if a return was filed electronically that would have been a Form 1040EZ had it been filed on paper, it would have been considered a Form 1040EZ in the statistics. All 1040TEL returns were considered to have been Form 1040EZ for these statistics. All returns generated on a personal computer were classified as 1040PC regardless what standard forms they would have been classified under.

The forms represented different levels of complexity in regard to the information reported. The Forms 1040A and 1040EZ, for instance, could only be used if an individual's taxable income was less than $50,000, his other income came from only a limited number of sources, and the taxpayer did not itemize deductions. For the first time in 1995, taxpayers were allowed to report unemployment compensation on Form 1040EZ. The Form 1040 had to be used if taxable income was greater than $50,000. In addition, the taxpayer had to file Form 1040 if he or she itemized deductions or had income (or losses) from a source not provided for on Form 1040A or 1040EZ, used certain tax provisions, or had certain tax credits not included on Form 1040A or 1040EZ. (For a complete description of each form see Section 5, 1995 Forms and Instructions.)

## Gambling Earnings

(included in line 21, Form 1040)

Gambling earnings include proceeds from lotteries, raffles, etc, and are included in line 21, Form 1040. These gambling earnings were edited into a separate field during service center processing. Gambling losses were not allowed to offset winnings on line 21. Instead, gambling losses were an itemized deduction reported on Schedule A. (See also "Gambling Loss Deduction.")

## Gambling Loss Deduction

(included in line 27, Schedule A)

Gambling losses (to the extent of gambling winnings) were fully deductible for taxpayers who itemize deductions. (See also "Gambling Earnings" and "Total Itemized Deductions.")

## General Business Credit

(line 44a, Form 1040)

The general business credit consisted of the investment credit, the jobs credit, the alcohol fuel credit, the low-income housing credit, the research credit, the enhanced oil recovery credit, the disabled access credit, the renewable electricity production credit, the Indian employment credit, the credit for employer social security and Medicare tax paid on employee tips, and the community development corporation credit. Taxpayers claiming more than one of the credits were required to summarize them on Form 3800, *General Business Credit*. The general business credit was limited to 100 percent of the first $25,000 ($12,500 for a married couple filing separately) of tax liability and 75 percent of the excess over $25,000. If the current year general business credit exceeded the tax liability limitation, the excess amount could be carried back to the 3 preceding tax years, then forward 15 years.

## Home Mortgage Interest Deduction

(lines 10+11, Schedule A)

See “Interest Paid Deduction.”

## Household Employment Taxes D

(line 53, Form 1040)

For 1995, taxpayers paying domestic employees more than $1,000 generally had to pay social security and Medicare taxes for these employees via their personal income tax return by filing the new Schedule H, *Household Employment Taxes*. Previously, the taxpayers had been required to report such taxes using Form 943C, and paying the taxes separately.

## Income Subject to Tax

See“Modified Taxable Income.”

## Income Tax After Credits

[(line 40 minus line 45) minus part or

all of line 57, Form 1040]

To arrive at income tax after credits, taxpayers deducted total credits (line 45, Form 1040) from income tax before credits (line 40, Form 1040). For the statistics, tax was further reduced by the portion of the earned income credit which did not result in a negative tax. This portion of the earned income credit was included in the total credits as “earned income credit used to offset income tax before credits.” Any tax remaining after subtraction of all credits and the earned income credit was tabulated as “income tax after credits.”

## Income Tax Before Credits

(line 40, Form 1040)

This amount consisted of the tax liability on taxable income, computed by using the tax tables, tax rate schedules, Schedule D Tax worksheet, Form 8615, or Form(s) 8814, plus any additional taxes (line 39). (See also “Tax Generated.”)

## Income Tax Withheld

(line 55, Form 1040)

Income tax withheld included amounts: deducted from salaries, wages, and tips, as reported on Form W-2; deducted from pensions, annuities, and certain gambling winnings as reported on Forms 1099-R and W-2G; and withheld from total distributions of profit-sharing, retirement plans, and individual retirement accounts, as reported on Form 1099-R.

In some cases, a backup withholding rate of 31 percent was required for interest, dividend, and royalty payments which, generally, were not subject to withholding.

## Individual Retirement Arrangement Deductible Payments

(lines 23a and 23b, Form 1040)

An individual retirement arrangement (IRA) is a savings program that allows a taxpayer to set aside money for retirement. Beginning in 1987, the deduction for IRA contributions was reduced or eliminated for taxpayers who were (or whose spouse was) covered by an employee retirement plan and whose adjusted gross income exceeded certain levels.(Nondeductible contributions were still allowed for such taxpayers.) Deductible contributions could be subtracted from the employee’s total income in arriving at adjusted gross income.

Contributions to an IRA (whether or not they were deductible) were limited to the lesser of: a) the individual’s taxable compensation for the year, or b) $2,000 ($2,250 if a nonworking spousal IRA was included).

Unless they were disabled, taxpayers could not start withdrawing funds from the account until they reached age 59-1/2. After age 70-1/2 taxpayers were required to begin withdrawals. Penalty taxes were assessed if the taxpayer failed to comply with these limitations.

Individuals could also set up an IRA to include a nonworking spouse who met certain qualifying conditions. The total IRA deduction, including both the taxpayer and the nonworking spouse, could not exceed $2,250. A spousal IRA deduction is tabulated in the statistics as “Secondary IRA payments.”

Payments to an IRA for a particular taxable year had to be made no later than the due date of the individual's return for that year.

## Individual Retirement Arrangement Taxable Distributions

(line 15b, Form 1040)

Any money or property received from a taxpayer's IRA account was considered a distribution and, generally, had to be included in the taxpayer's total income in the year received. Excepted from this rule were tax-free roll-over distributions from one retirement account to another, and distributions to the extent that the payout represented previously taxed non-deductible IRA contributions.

## Interest Paid Deduction

(line 14, Schedule A)

The rules for deducting home mortgage interest for 1995 were: (1) if a taxpayer took out a mortgage before October 13, 1987, secured by the taxpayer's main or second home, all the interest was deductible, (2) if the taxpayer's mortgage was after October 13, 1987, and the funds were used to buy, build, or improve that home, all interest could be deducted if the total of all mortgages on the property was $1 million or less ($500,000 if married filing separately), and (3) taxpayers could deduct all of the interest on an additional $100,000 ($50,000 if married filing separately) of mortgages on their main or second home other than to buy, build, or improve that home.

Generally, investment interest (interest paid on money borrowed that is allocable to property held for investment) was fully deductible up to the amount of net investment income. Beginning in 1993, the net investment income that was to be compared to investment interest could not include any net capital gains taxed at the 28 percent maximum capital gain tax rate. Interest relating to business, royalty, and rental income was deducted directly from these items and was not reflected in the interest paid statistics.

## Interest Received

See "Taxable Interest Received."

## Interest, Tax-Exempt

See "Tax-Exempt Interest."

## Investment Interest Expense Deduction

(line 13, Schedule A)

See "Interest Paid Deduction." and "Total Itemized Deductions."

## Itemized Deductions

See "Total Itemized Deductions" and specific itemized deductions.

## Itemized Deduction Limitation

See "Total Itemized Deductions."

## Limited Miscellaneous Deductions

(lines 20-26, Schedule A)

Certain taxpayer expenses could be deducted on Schedule A, but were limited to the amount that exceeded 2 percent of adjusted gross income. These included: unreimbursed employee business expenses (including qualifying educational expenses), tax preparation fees, expenses paid to produce or collect taxable income, and expenses paid to manage or protect property held for earning income (including safe deposit boxes).

## Long-Term Capital Gain or Loss

(line 17, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

## Long-Term Gain or Loss from Other Forms

(line 12, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

## Long-Term Loss Carryover

(line 15, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

## Marginal Tax Rates

Different portions of taxable income are taxed at different rates. The tax rate applied to the last dollar of income is called the “marginal tax rate” for that return. (See also “Tax Generated.”)

## Marital Filing Status

(lines 1-5, Form 1040)

The five marital filing status classifications were:

(1) returns of single persons (not heads of household or surviving spouses);

(2) joint returns of married persons;

(3) separate returns of married persons;

(4) returns of heads of household; and

(5) returns of surviving spouses.

Marital filing status was usually determined as of the last day of the tax year. If one’s spouse died during the tax year, the survivor was considered married for the entire year. If a taxpayer was divorced during the tax year and did not remarry, the taxpayer was considered to be unmarried for the entire year. Surviving spouse status could only be used by those whose spouse died in 1993, 1994, or 1995 and the taxpayer had a qualifying dependent.

## Medical and Dental Expenses Deduction

(lines 1-4, Schedule A)

Qualified medical expenses included nonreimbursed payments made for the diagnosis, treatment, or prevention of disease or for medical or dental insurance. However, taxpayers who took the self-employed health insurance adjustment had to reduce their total premium deduction by the amount of the adjustment (see “Self-Employed Health Insurance”). In general, medical and dental expenses could be claimed as an itemized deduction to the extent that they exceeded 7.5 percent of adjusted gross income. Amounts paid for medicine and drugs were deductible only for items not available except by prescription or were for insulin. Taxpayers could deduct costs for transportation to obtain medical care and also a maximum of $50 per day for certain lodging expenses incurred while traveling to obtain medical care. (See also “Total Itemized Deductions.”)

## Minimum Tax Credit

(line 44c, Form 1040)

A minimum tax credit could be taken for 1995 by certain taxpayers who paid alternative minimum tax for 1994. If all of the minimum tax credit (claimed on Form 8801) could not be used for 1995, the excess could be carried forward to later years.

## Miscellaneous Itemized Deductions

(lines 20-26, 28, Schedule A)

Miscellaneous itemized deductions were divided into two types. The first, such as employee business expenses, included those items that were limited to the amount that exceeded 2 percent of adjusted gross income, while the expenses of the other types, such as gambling losses not in excess of gambling winnings, were fully deductible. (See also "Gambling Loss Deduction," "Limited Miscellaneous Deductions," and "Miscellaneous Deductions Other Than Gambling.")

## Miscellaneous Deductions Other Than Gambling

(included in line 27, Schedule A)

Other fully deductible expenses included such items as impairment-related work expenses for disabled persons, and amortizable bond premiums. (See also "Miscellaneous Itemized Deductions" and "Total Itemized Deductions.")

## Modified Taxable Income

"Modified taxable income" is the term used to describe "income subject to tax," the actual base on which tax is computed for the statistics in Tables 3.4 and 3.5. For taxpayers filing current year returns, modified taxable income is identical to "taxable income."

For prior year returns included in the 1995 statistics, a modified taxable income was calculated by using the tax rate schedule to impute a hypothetical taxable income amount necessary to yield the given amount of tax reported.

A person who has no tax will have no modified taxable income. Since, the tax rate schedule is used to generate the modified taxable income, it is possible for a person to have up to four dollars of taxable income but have no modified taxable income because their tax reported would be zero.

## Moving Expenses Adjustment

(line 24, Form 1040)

Taxpayers deducted current-year qualified moving expenses in the calculation of adjusted gross income as a statutory adjustment. In order to qualify for this deduction, the new work place had to be at least 50 miles farther from the former residence than the older. Deductible expenses included those incurred to move household and personal goods, and travel including lodging en route to the new residence. Expenses no longer deductible included: meals while moving from the old residence to the new residence; travel expenses for pre-move house hunting trips; expenses while occupying temporary quarters in the area of the new job; and qualified residence sale, purchase, and lease expenses.

## Net Capital Gain in AGI Less Loss

See "Sales of Capital Assets, Net Gain or Loss."

## Net Operating Loss

(included in line 21, Form 1040)

The excess loss of a business when AGI for a prior year was less than zero. The loss could be applied to the AGI for the current year and carried forward up to 15 years. (See also "Other Income.")

## Nonconventional Source Fuel Credit D

(included in line 45, Form 1040)

This credit was available to taxpayers who sold fuel produced from a nonconventional source. Examples would be oil produced from shale and tar sands, gas produced from geopressured brine or biomass, and liquid, gaseous, or solid synthetic fuels produced from coal.

## Nondeductible Passive Losses

(calculated on Form 8582)

Nondeductible passive losses were calculated by subtracting deductible passive losses reported on Form 8582 (line 11) from total passive losses (lines 1b+2b) and were limited to zero.

## Other Adjustments

(included in line 30, Form 1040)

See "Statutory Adjustments."

## Other Income D

(line 21, Form 1040)

Included in other income were items such as prizes, awards, sweepstakes winnings, recoveries of bad debts, insurance received as reimbursement for medical expenses taken as a deduction in a previous year, and any other income subject to tax for which no specific line was provided on the return form. Any foreign earned income exclusions, or "net operating loss" in an earlier year (that was carried forward and deducted for 1995) was entered as a negative amount on this line by the taxpayer but edited into separate fields during service center processing. However, any employer-provided foreign housing exclusions were included in other income (as a negative amount). Also, beginning in 1995, gambling earnings which was entered on this line by the taxpayer was edited into a separate field during service center processing.

## Other Payments

(line 60, Form 1040)

See "Credit for Federal Tax on Gasoline and Special Fuels" and "Credit from Regulated Investment Companies."

## Other Tax Credits

(included in lines 44, 45, Form 1040)

"Other tax credits" is a residual category in the statistics and does not relate to a line item on a tax form. It includes "credit for fuel from a nonconventional source" and other miscellaneous credits that did not belong in any other category and were used to offset income tax before credits.

## Other Taxes Deduction

(line 8, Schedule A)

Other taxes consisted of any deductible tax other than state and local income taxes, real estate taxes, and personal property taxes. Examples of other taxes are taxes paid to a foreign country or US possession. (See also "Personal Property Tax"and "Taxes Paid Deduction.")

## Overpayment

(line 62, Form 1040)

An overpayment of tax occurred when "total tax payments" exceeded "total tax." Overpayments included the amount of any "refundable portion of the earned income tax credit." An overpayment could be refunded or credited toward the estimated tax for the following year. (See also "Credit to

1996 Estimated Tax" and "Refund.")

## Overpayment Refunded

(line 63, Form 1040)

See "Overpayment" and "Refund."

## Parents' Election to Report Child's Interest and Dividends

(calculated on Form 8814)

A parent could report on his or her return income received by his or her child. If the election was made, the child was not required to file a return. A parent could make this election if the child:

- was under age 14 on January 1, 1996;
- had income only from interest and dividends;
- had gross income for 1995 that was more than $500 but less than $5,000;
- had no estimated tax payments for 1995;
- did not have any overpayment of tax shown on his or her 1994 return applied to the 1995 return; and
- had no Federal income tax withheld from his or her income (backup withholding).

If the parents were not filing a joint return, special rules applied to determine which parent could make the election.

## Partnership and S Corporation Net Income or Loss

(line 31, Schedule E)

Partnerships and S corporations (formerly Subchapter S corporations) are not taxable entities; therefore, tax on their net profit or loss was levied, in general, directly on the members of the partnership or shareholders of the S corporation. The profit or loss shown in the statistics was the taxpayer's share of the ordinary gain or loss of the enterprise, and certain payments made to the taxpayer for the use of capital or as a salary. Net long-term capital gains received from partnerships and S corporations were reported on Schedule D.

If a return showed net income from one partnership or S corporation and a net loss from another, the two were added together, and the return was tabulated by the net amount of income or loss in the appropriate column. Beginning in 1987, net income and net loss were reported separately for passive and non-passive partnership and S corporation activities. Passive losses were limited under new rules to the amount that could offset passive income.

## Passive Activity Losses

Losses generated by any "flow-through" business activity (such as partnerships or S Corporations for which profits and certain other amounts were passed directly through to the owners), in which the taxpayer did not "materially participate" (i.e., was not involved regularly and substantially in the operations of the activity) qualified as passive activity losses.

## Payment with Request for Extension of Filing Time

(line 58, Form 1040)

This payment was made when the taxpayer filed Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*, or Form 2688, *Application for Additional Extension of Time to File*. The extension granted the taxpayer an additional period of time to file a tax return, but did not extend the time for the payment of the expected tax. Full payment of any tax due had to be made with the application for extension.

## Payments to a Keogh Plan

(line 27, Form 1040)

Self-employed individuals were allowed to contribute to a Keogh retirement plan or a simplified employment pension plan for themselves and to deduct all or part of such contributions in computing adjusted gross income. The amount which could be deducted was based on net earnings from self- employment.

## Penalty Tax on Qualified Retirement Plans

(line 51, Form 1040)

If taxpayers withdrew any funds from an Individual Retirement Account or qualified retirement plan before they were either age 59-1/2 or disabled, they were subject to a penalty tax equal to 10 percent of the premature distribution. Any taxpayer who failed to withdraw the minimum required distribution after reaching age 70-1/2 had to pay a 50 percent excise tax on the excess accumulation. Contributions to the retirement plans in excess of the legal limitation for the year (the lesser of $2,000 or the taxpayer’s compensation for the year) were subject to an excise tax equal to 6 percent of the excess contribution.

## Pensions and Annuities

(lines 16a, 16b, Form 1040)

Generally, pensions are periodic income received after retirement for past services with an employer, while annuities are income payable at stated intervals after payment of a specific premium. A taxpayer could acquire a pension or annuity either by purchase from a commercial organization (usually life insurance, endowment, or annuity contracts) or under a plan or contract connected with the taxpayer’s employment. Those pensions or annuities obtained in connection with employment could be purchased entirely by the taxpayer or could be financed in part (a contributory plan) or in whole (a non-contributory plan) by contributions of the employer.

Since a non-contributory plan was paid for entirely by an employer, the amount received by the employee was fully taxable. This fully taxable pension was reported on lines 16a and 16b. For the taxpayer who participated in a contributory retirement plan while employed, the amount received was only partially taxable. In general, the amount excludable from gross income, the nontaxable portion, represented the taxpayer’s contributions under the plan, while the taxable portion represented the employer’s contribution and earnings on the entire investment. The nontaxable contribution had to be amortized over the expected lifetime of the taxpayer.

The entire amount of pensions and annuities received for the year was reported on line 16a of the Form 1040. The taxable portion was computed on a separate worksheet and entered on line 16b.

## Personal Property Taxes Deduction

(line 7, Schedule A)

Personal property tax could be included as a deduction if the tax was an annual tax based on value alone. (See also "Taxes Paid Deduction.")

## Predetermined Estimated Tax Penalty

(line 66, Form 1040)

If a return showed taxes of $500 or more owed on line 65 (tax due at time of filing) and this amount was more than 10 percent of the total tax, the taxpayer could owe a penalty, unless tax payments in the current year equaled or exceeded prior-year tax liability (provided prior year liability was greater than zero). Also, taxpayers could owe a penalty if they underpaid their 1995 estimated tax liability for any payment period. Form 2210 was used to determine the amount of a penalty, if any.

For this report, the predetermined estimated tax penalty includes only the amount calculated by the taxpayer when the return was initially filed.

## Primary IRA Payments

(line 23a, Form 1040)

See "Individual Retirement Arrangement Deductible Payments."

## Real Estate Taxes

(line 6, Schedule A)

This amount included taxes paid on real estate that was owned and not used for business by the taxpayer. The real estate taxes could only be used as a deduction if the taxes were based on the assessed value of the property. Also, the assessment had to be made uniformly on property throughout the community, and the proceeds had to be used for general community or governmental purposes. (See also "Taxes Paid Deductions").

## Recapture Taxes

(line 49, Form 1040)

See "Tax from Recomputing Prior Year Investment Credit."

## Refund

(line 63, Form 1040)

A refund of tax included all overpayment of income taxes not applied by the taxpayer as a credit to the next year’s estimated tax. (See also “Overpayment.”)

## Refund Credited to Next Year

(line 64, Form 1040)

See "Credit to 1996 Estimated Tax."

## Regular Tax Computation

Typically, the taxpayer, in determining the amount of “tax generated,” first computed taxable income. Depending on marital status and size of taxable income, the taxpayer then used the tax tables or applied the rates from one of four tax rate schedules to determine tax. Also, returns of taxpayers who had taxes computed by the Internal Revenue Service were classified under the regular tax computation method. If a taxpayer filed a Form 8615 or had any long-term capital gains taxed at a rate less than the tax tables, then they were not considered as regular tax computations.

## Rent and Royalty Net Income or Loss

(lines 24-25, Schedule E)

This amount was the combination of rent net income, rent net loss, royalty net income, and royalty net loss. This amount did not include passive losses that were not deductible, but included carryovers of previous years' passive losses. (See also "Passive Activity Losses.")

## Rent Net Income or Loss

(line 22, columns A,B,C, Schedule E)

Rent net income or loss was determined by deducting from gross rent, the amounts for depreciation, repairs, improvements, interest, taxes, commissions, advertising, utilities, insurance, janitorial services, and any other allowable expenses related to the rented property. In the statistics, total rental net loss includes passive losses that were not deductible in figuring AGI. (See also "Passive Activity Losses.")

## Royalty Net Income or Loss

(line 22, columns A, B, C, Schedule E)

Net royalties consisted of gross royalties less deductions for depletion, depreciation, office rent, legal fees, clerical help, interest, taxes, and similar items. Gross royalties included revenues from oil, gas, and other mineral rights; revenue from patents; and revenue from literary, musical, or artistic works. Certain royalties received under a lease agreement on timber, coal, and domestic iron ore were eligible for capital gains or ordinary loss treatment under Code section 1231. As a result of the separate computation, those royalties are reflected in the statistics for “sales of capital assets” and “sales of property other than capital assets.”(See also “Total Rent and Royalty Income or Loss in AGI.”)

## S Corporations

See “Partnership and S Corporation Net Income or Loss.”

## Salaries and Wages

(line 7, Form 1040)

Salaries and wages as reported on the tax return were amounts of compensation primarily for personal services. The following items are included:

- salaries;
- wages;
- commissions;
- bonuses;
- tips;
- fees;
- excess reimbursement of employee business expenses;
- moving expenses allowances;
- the difference between the fair market value of certain property and the discount price for which it was purchased by a taxpayer from his or her employer;
- severance pay;
- sick pay;
- the value of exercising a stock appreciation right;
- directors’ fees;
- vacation allowances;
- most disability payments;
- strike and lockout benefits; and
- the value of certain non-monetary payments for services (e.g., merchandise, accommodations, certain meals or lodging, certain stock purchase plans, or property).

Identifiable amounts for any of these categories which may have been reported by taxpayers as “other income” are treated as salaries and wages for the statistics.

## Sales of Capital Assets, Net Gain or Loss

(line 13, Form 1040)

In general, capital assets for tax purposes included all property held for personal use or investment. Examples of such assets were personal residences, furniture, automobiles, and stocks and bonds. Most assets used for business activities were specifically excluded from treatment as capital assets. (See also “Sales of Property Other Than Capital Assets, Net Gain or Loss.”)

The following concepts are used in the computation of net capital gain or loss for this report:

*Long-term or short-term*: If the holding period of the asset was one year or less, the gain or loss was considered short- term; otherwise it was considered long-term.

*Net capital gain*: If the combination of net short-term gain or loss and net long-term gain or loss resulted in a positive amount, the taxpayer had a net capital gain. The full amount of this gain, whether short-term or long-term was included in adjusted gross income.

*Net capital loss*: If the combination of net short-term gain or loss and net long-term gain or loss resulted in a negative amount, the taxpayer showed a net capital loss. The amount of net capital loss to be included in adjusted gross income was limited to the smaller of the actual net capital loss or $3,000 ($1,500 for married persons filing separately). Any excess capital losses over the $3,000 limit could be carried over to subsequent tax years (“capital loss carry-over” in the statistics).

Net capital gain or loss also included capital gain distributions which were not reported on Schedule D (Capital Gains and Losses). These capital gain distributions were entered directly on line 13 of Form 1040 if the taxpayer did not have any other gains or losses to report on Schedule D. These distributions were, by definition, long-term capital gains. (See also “Capital Gain Distributions Reported on Form 1040.”)

## Sales of Capital Assets Reported on Schedule D

See "Sales of Capital Assets, Net Gain or Loss."

## Sales of Property Other Than Capital Assets, Net Gain or Loss

(line 14, Form 1040)

Property other than capital assets generally included property of a business nature, in contrast to personal or investment property, which were capital assets. Some types of property specifically included in this group were:

(1) certain depreciable, depletable, and real business property;
(2) accounts and notes receivable in the ordinary course of business generated from the sale of goods and services ordinarily held for sale by the business or includable in the inventory of the business;
(3) certain copyrights, literary, musical, or artistic compositions, or similar properties; and
(4) amounts resulting from certain “involuntary conversions,” including net losses from casualty and theft.

Taxpayers reported all gains and losses not treated as capital gains on Form 4797, *Sales of Business Property*.

### Schedule D Gain Subject to 28 Percent Tax Rate

See "Tax Generated."

### Secondary IRA Payments

(line 23b, Form 1040)

See "Individual Retirement Arrangement Deductible Payments."

### Self-Employed Health Insurance Deduction D

(line 26, Form 1040)

The provision that allowed self-employed persons, or owners of more than 2 percent of outstanding stock of an S corporation, to deduct, in the calculation of AGI, up to 30 percent of the amount paid for health insurance for themselves and their families expired on December 31, 1993. In 1995, a bill was passed restoring the provision retroactively for 1994 and making it permanent.

### Self-Employment Tax D

(line 47, Form 1040)

The ceiling for self-employment income subject to social security tax was $61,200 for 1995 ($60,600 for 1994). All self-employment income without limit greater than $400 ($108.28 for church employees) was subject to the Medicare tax portion of self-employment. (See also “Total Tax Liability.”)

### Short-Term Capital Gain or Loss

(line 8, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

### Short-Term Gain or Loss from Other Forms

(line 4, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

### Short-Term Loss Carryover

(line 6, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

### Size of Adjusted Gross Income

(line 31, Form 1040)

The amount of adjusted gross income reported by the taxpayer on the return was the basis for classifying data by size of adjusted gross income. Returns without positive adjusted gross income, such as deficit returns or returns on which income and loss were equal, were classified as having “no adjusted gross income” and appear as a separate class in most basic tables. The absence of a class labeled “no adjusted gross income” indicates that any deficit or break-even returns in a table were included in the lowest income size class.

### Social Security Benefits

(lines 20a, 20b, Form 1040)

Social security benefits included any monthly benefit under title II of the Social Security Act or the part of a “tier 1 railroad retirement benefit” that was equivalent to a social security benefit. Social security benefits were not taxable unless the taxpayer’s total income (including tax-exempt interest) plus one-half of total social security benefits exceeded certain levels. The maximum taxable amount was up to 85% of the net social security benefits received. Social security benefits received were reported on Form 1040, line 20a and the taxable portion was reported on line 20b. Taxpayers who had no taxable benefits were not supposed to show the total benefits on their income tax returns.

## Social Security and Medicare Tax on Tip Income

(line 50, Form 1040)

Cash tips amounting to $20 or more received by the taxpayer in a month while working for any one employer were subject to withholding of income tax, social security tax (or the equivalent railroad retirement tax), and Medicare tax. If the employer was unable to withhold the social security and Medicare tax, the amount of uncollected social security tax on tips was indicated on the employee’s Form W-2, and the employee was required to report the uncollected tax and pay it with the Form 1040. If the employee did not report the tips to the employer, the employee was required to compute the social security and Medicare tax on unreported tips on Form 4137 and attach it to Form 1040.

## Standard Deduction D

(included in line 34, Form 1040)

For 1995, the basic standard deduction amounts were increased. Taxpayers who were age 65 or over or blind could claim an additional standard deduction amount of $750 or $950 based on filing status. Both the basic and additional standard deductions were determined by marital filing status, as shown below.

*Single*

Basic deduction of $3,900;

Each taxpayer 65 or over or blind was allowed an additional $950 deduction each for age and blindness.

*Married filing jointly or surviving spouses*

Basic deduction of $6,550;

Each taxpayer 65 or over or blind was allowed an additional $750 deduction each for age and blindness.

*Married, filing separately*

Basic deduction of $3,275;

Each taxpayer 65 or over or blind was allowed an additional $750 deduction each for age and blindness.

*Head of Household*

Basic deduction of $5,750;

Each taxpayer 65 or over or blind was allowed an additional $950 deduction each for age and blindness.

In the statistics, the basic standard deduction is tabulated for all taxpayers who claimed it, including those who were 65 or over and/or blind. The “additional standard deduction” total includes only the additional amount that was taken by those taxpayers who were 65 or over and/or blind.

## State Income Tax Refund

(line 10, Form 1040)

If a taxpayer received a refund, credit, or offset of state or local income taxes in 1995 that was paid or deducted before 1995, all or part of that amount had to be reported as income to the extent that an itemized deduction for state and local taxes had previously resulted in a tax benefit.

## State and Local Income Taxes

(line 5, Schedule A)

Taxes paid could be used as an itemized deduction if a taxpayer had state and local income tax withheld from their salary during 1995; had paid state and local income taxes directly during 1995 or for a prior year, or had made mandatory contributions to specific state disability funds. (See also"Taxes Paid Deduction.")

## Statutory Adjustments

(lines 23-30, Form 1040)

Certain adjustments to total income were allowed as deductions in the calculation of adjusted gross income. For 1995, statutory adjustments included payments to a self-employed Keogh retirement plan or a simplified employee pension (SEP), forfeited interest penalty, certain payments to an IRA, alimony paid, the self-employed health insurance deduction, the deduction for one-half of self-employment tax, and the foreign housing deduction. Each of the above items is described separately in this section. In addition, statutory adjustments included jury duty pay received by the taxpayer and given to the employer if the taxpayer continued to receive wages while on jury duty, the forestation/reforestation amortization deduction, and the repayment of supplemental unemployment benefits under the Trade Act of 1974. These amounts are included in the "Other Adjustments" category in the statistics.

## Tax Due at Time of Filing

(line 65, Form 1040)

"Tax due" was reported on returns on which total tax liability exceeded total tax payments.

## Tax from Recomputing Prior-Year Investment Credit

(line 49, Form 1040)

The investment tax credit provisions of the law included a recapture rule which required taxpayers to pay back some or all of any investment credit previously taken on property disposed of before the end of the useful life claimed in computing the credit.

The law specified that if property qualifying for the credit was disposed of before the end of its useful life, the tax for the year of disposal was increased by the difference between the credit originally claimed and the credit that would have been allowed based on the shorter actual life. Tax credits could not be applied against this additional tax.

## Tax Generated D

(line 38, Form 1040)

This amount was the tax computed on modified taxable income. For 1995,

there were five basic tax rates, 15, 28, 31, 36, and 39.6 percent. Long-term capital gains (in excess of short-term capital losses) were subject to a maximum tax rate of 28 percent. The 15-percent bracket applied to taxable income equal to or below $23,350 for single filers; $39,000 for joint filers or surviving spouses; $19,500 for married persons filing separately; and $31,250 for heads of household. The 28 percent tax bracket applied to taxable income in excess of the 15 percent bracket ceiling and equal to or below $56,550 for single filers; $94,250 for joint filers or surviving spouses; $47,125 for married persons filing separately; and $80,750 for heads of household. The 31 percent tax rate applied to taxable income in excess of the 28 percent tax bracket ceiling and equal to or below $117,950 for single filers; $143,600 for joint filers or surviving spouses; $71,800 for married persons filing separately; and $130,800 for heads of households.

The 36 percent tax rate applied to taxable income in excess of the 31 percent tax bracket ceiling and equal to or below $256,500 for single filers, joint filers, or surviving spouses and heads of households and $128,250 for married persons filing separately. The 39.6 percent tax rate applied to taxable income in excess of and 3.5.

If children under age 14 had investment income that exceeded $1,300, there were two methods of reporting this income. If the child filed his or her own return, the investment income that exceeded $1,300 was taxed at the parents' rate on Form 8615 (the remaining investment income was taxed at the child's rate) and tabulated separately in Tables 3.4 and 3.5. If the parents elected to report the child's investment income on their return, they attached a Form 8814. The investment income in excess of $1,000 was included on Form 1040, line 21. The remaining investment income in excess of the $500 standard deduction was taxed at the child's rate (15 percent), added to the parents' tax on Form 1040, line 38, and is also tabulated separately in Tables 3.4 and 3.5.

On most returns, except those with additional taxes from special computations, "tax generated" equaled "income tax before credits." (See also "Modified Taxable Income.")

## Tax Payments

(lines 55, 56, 58-61, Form 1040)

These payments were generally made before the return was filed and were applied against tax liability to determine any amount payable or refundable at the time of filing. They consisted of the following:

(1) income tax withheld, including backup withholding;

(2) estimated tax payments (including those from overpayment on 1994 return);

(3) payment with request for extension of filing time;

(4) excess social security, Medicare, or railroad retirement tax withheld;

(5) credit for tax on certain gasoline, fuel, and oil;

(6) credit from regulated investment companies.

Each of the above is described under a separate heading in this section.

Although the earned income credit was included with tax payments on the tax return itself (line 57, Form 1040), for the statistics it is treated partly as a credit against income tax liability and partly as a refundable amount. (See also "Earned Income Credit.")

## Tax Penalty

(line 66, Form 1040)

See "Predetermined Estimated Tax Penalty."

## Tax Preparation Fees

(line 21, Schedule A) Tax preparation fees were included on Schedule A as a miscellaneous deduction, the total of which was subject to a 2 percent of AGI limitation. The amounts reported in the statistics are prior to this limitation. (See also "Limited Miscellaneous Itemized Deductions.")

## Tax Rates, Tax Rate Classes

See "Tax Generated."

## Tax Withheld

(line 55, Form 1040)

See "Income Tax Withheld."

## Tax-Exempt Interest

(line 8b, Form 1040) Tax-exempt interest included interest on certain State and municipal bonds, as well as any tax-exempt interest dividends from a mutual fund or other regulated investment company. This was an information reporting requirement and did not convert tax-exempt interest into taxable interest.

## Taxable and Nontaxable Returns

The taxable and nontaxable classification of a return for this report is determined by the presence of “total income tax” (the sum of income tax after credits and the alternative minimum tax). Some returns classified as “nontaxable” may have had a liability for other taxes, such as self-employment tax, Railroad Retirement Tax Act (RRTA), social security or Medicare taxes on tip income, uncollected employee social security tax on tips, tax from recomputing prior-year investment credit, penalty taxes on individual retirement accounts, Section 72 penalty taxes, advance earned income credit payments, household employment taxes,or golden parachute payments. These taxes, however, were disregarded for the purposes of this classification since four of the above taxes were considered social security (rather than income) taxes, and the remaining ones, except for advance earned income payments, were either based on prior year’s income or were penalty taxes.

For this report, the earned income credit is treated first as an amount used to offset income tax before credits. Since the earned income credit was refundable, it was subtracted from income tax (for the statistics) after reduction by all other statutory credits. As a result, some returns became nontaxable strictly because of the earned income credit if there was no alternative minimum tax and the earned income credit equaled or exceeded income tax before credits reduced by any other credits.

It should be noted that classification as taxable or nontaxable was based on each return as it was filed and does not reflect any changes resulting from audit or other enforcement activities.

## Taxable Income

(line 37, Form 1040) Taxable income was derived by subtracting from adjusted gross income any exemption amount and either total itemized deductions or the standard deduction. On current year returns, “taxable income” was identical to “modified taxable income.”

## Taxable Interest Received

(line 8a, Form 1040)

This amount was the taxable portion of interest received from bonds, debentures, notes, mortgages, certain insurance policy proceeds, personal loans, bank deposits, savings deposits, tax refunds, and U.S. savings bonds. Also included as interest were “dividends” on deposits or withdrawable accounts in mutual savings banks, savings and loan associations, and credit unions. These amounts could, in some circumstances, include a child’s income which

was to be taxed at the parent's rate. Interest on state or local government obligations remained tax-exempt, but the total tax-exempt interest had to be reported on line 8b of Form 1040. It was not included in the taxpayer's income for tax purposes. (See also "Tax-Exempt Interest.") Taxable IRA Distributions (in AGI)
(line 15b, Form 1040)See "Individual Retirement Arrangement Taxable Distributions."Taxable Pensions and Annuities (in AGI)

(line 16b, Form 1040)

See "Pensions and Annuities."

### Taxable Social Security Benefits
(received)
(line 20b, Form 1040)

See "Social Security Benefits."
Taxes Paid Deduction
(lines 5-9, Schedule A)

Taxes allowed as an itemized deduction from adjusted gross income, included personal property taxes, state and local income taxes, taxes paid to foreign countries or U.S. possessions (unless a foreign tax credit was claimed), and real estate taxes except those levied for improvements that tended to increase the value of the property. Mandatory employee contributions to a state disability fund and employee contributions to a state unemployment fund were also included. Federal taxes were not deductible.

Taxes paid on business property were deducted separately on the schedules for business, rent, royalty, and farm income and are excluded from the "taxes paid" statistics in this report.

Total Income
(line 22, Form 1040)Total income was the sum of the individual income items (lines 7 through 21) before adjustments.Total Income Tax

(line 46 + line 48 - line 57, limited to zero, on Form 1040)

Total income tax was the sum of income tax after credits (including the subtraction of the earned income credit) and the alternative minimum tax. It did not include any of the other taxes which made up total tax liability. Total income tax was the basis for classifying returns as taxable or nontaxable.

Total Itemized Deductions ∆
(included in line 34, Form 1040)

Itemized deductions from adjusted gross income could be claimed for medical and dental expenses, taxes paid, interest paid, contributions, casualty and theft losses, moving expenses, and miscellaneous deductions. Itemized deductions were claimed only if they exceeded the total standard deduction, with three exceptions. First, if a taxpayer was married and filing separately, and his or her spouse itemized deductions, the spouse was required toitemize as well. Second, taxpayers in several states were required to itemize deductions on their Federal tax returns if they wish to itemize on their State returns. Third, if a taxpayer benefited for alternative minimum tax purposes, they might itemize even though the standard deduction was larger. The total amount of itemized deductions was tabulated only from returns showing positive adjusted gross income.

If a taxpayer had AGI in excess of

$114,700 ($57,350 if married filing separately), his or her itemized deductions may have been limited. The limitation did not apply to the deductions for medical and dental expenses, investment interest expenses, casualty or theft losses, andgambling losses. To arrive at allowable itemized deductions, total itemized deductions were reduced by the smaller of: a) 80 percent of the non-exempt deductions, or b) 3 percent of the amount of AGI in excess of $114,700 ($57,350). Therefore, total itemized deductions is the sum of the separate deductions cited above, less the itemized deduction limitation.

### Total Miscellaneous Deductions

See "Miscellaneous Itemized Deductions."

### Total Rent and Royalty Income or Loss

(line 26 plus line 39, Schedule E)

This income concept consisted of all rent and royalty income and loss which was used in computing adjusted gross in -come, including farm rental income and suspended rental loss carry-over from prior years. It excluded that portion of rental losses which was not deductible in computing adjusted gross income due to the passive loss rules.

### Total Statutory Adjustments

(line 30, Form 1040)

Total statutory adjustments was the sum of the individual adjustments to income (lines 23a-29).

### Total Tax Credits

(lines 45, 57, Form 1040)

For this report, total tax credits consists of the following:

1) child and dependent care credit;
2) credit for the elderly and disabled;
3) foreign tax credit;
4) general business credit;
5) minimum tax credit;
6) earned income credit (EIC) used to offset income tax before credits;
7) mortgage interest credit;
8) empowerment zone employment credit; and
9) other tax credits.

These amounts were deducted from income tax before credits to arrive at income tax after credits. For the statistics, the portion of the EIC which did not result in a negative amount is tabulated as “earned income credit used to offset income tax before credits.” Any remaining EIC amount could be refunded or applied to other taxes, and is classified separately as “earned income credit refundable portion,” or “earned income credit used to offset other taxes.” All other credits were limited to the amount needed to offset income tax before credits and were not refundable or used to offset any other taxes.

### Total Tax Liability

(line 54 modified by the earned income credit, Form 1040)

Total tax liability was the sum of income tax after credits, the alternative minimum tax, self- employment tax, social security and Medicare tax on tips, tax from recomputing prior-year investment credits, taxes from individual retirement accounts, Section 72 penalty taxes, household employment taxes, and tax on golden parachute payments. These taxes were then reduced by the earned income credit used to offset all other taxes (defined under "Earned Income Credit). For the statistics, unlike the Form 1040, total tax liability does not include any advance earned income credit payments.

## Type of Tax Computation

(line 38, Form 1040)

Tabulations in Table 3.1 include three methods of computing the tax on income subject to tax. These methods were:

(1) regular tax, as computed from the tax tables or tax rate schedules accompanying the Forms 1040, 1040A, or 1040EZ (see also "Regular Tax Computation");

(2) Form 8615, used to compute the tax on investment income of children under 14; and

(3) Schedule D, Form 1040, used to compute the 28 percent tax on long-term capital gains (in excess of short-term capital losses.)

## Unemployment Compensation

(line 19, Form 1040)

All unemployment compensation received was taxable. It did not include any supplemental unemployment benefits received from a company-financed supplemental unemployment benefit fund, which were included in salaries and wages.

## Unreimbursed Employee Business Expenses

(line 20, Schedule A)

This item, added together with most other miscellaneous itemized deductions, was subject to a floor of 2 percent of AGI. Unreimbursed employee business expenses included travel, transportation, meal, and entertainment costs incurred while based at or away from home in the performance of job duties. Fifty percent of meal and entertainment expenses were deductible, and were calculated on Form 2106, *Employee Business Expenses*. Many other expenses such as union dues, safety equipment, uniforms, protective clothing, and physical examinations were also deductible. Travel expenses away from home which were paid or incurred were not deductible if the period of temporary employment was more than one year. The amounts reported in the statistics were prior to the 2 percent limitation. (See also "Limited Miscellaneous Itemized Deductions.")

SOURCE: IRS, Statistics of Income-1995, Individual Income Tax Returns, Publication 1304.